



ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson
Director*

MINUTES REGULAR MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

**Monday, November 23, 2009
8:30 A.M., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. David Byers, Chair of the ASRS Board, called the meeting to order at 8:33 AM, MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. David Byers, Chair
Mr. Tom Connelly, Vice-chair
Mr. Jaime Gutierrez (via teleconference)
Mr. Chris Harris (via teleconference)
Mr. Jim McLaughlin (arrived at 8:40 a.m.)
Dr. Keith Meredith
Mr. Larry Trachtenberg (via teleconference) (arrived at 8:34 a.m.)
Mr. Steve Zeman

Absent: Mr. Michael Townsend

A quorum was present for the purpose of conducting business.

Mr. Larry Trachtenberg arrived.

2. Approval of the Minutes of the October 16, 2009 Regular Session of the ASRS Board

Motion: Mr. Steve Zeman moved to approve the minutes of the October 16, 2009, Regular Session of the ASRS Board with an amendment to show that the meeting was teleconferenced to the Tucson office of the ASRS.

Mr. Tom Connelly seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

3. Presentation, Discussion and Appropriate Action Regarding the 2010 Legislative Session with Follow-up Regarding Potential Legislative Initiatives

Mr. Pat Klein, Assistant Director, External Affairs, and Ms. Lesli Sorensen, Government Relations Officer, addressed the Board regarding the 2010 Legislative Session. Ms. Sorensen said the Legislature agreed to sponsor all the issues the Board decided to move forward at the last Board meeting. Mr. Paul Matson, Director, summarized the legislative issues discussed at the last External Affairs Committee (EAC) meeting including:

- **Administration:** consideration of exempting the ASRS from AZNet, the Statewide telecommunications and network infrastructure program, subject to discussion with ADOA; consideration of permitting the board to authorize appropriations to continue ASRS operations in the event the legislature fails to make an appropriation; consideration of permitting the ASRS to assess a fee for various ASRS services, subject to discussion by the ASRS Board; consideration of permitting the ASRS to charge interest, penalties and administrative charges for some functions, subject to discussion by the ASRS Board.
- **Benefits:** consideration of raising the minimum benefit threshold for mandatory lump sum payouts.
- **Employer Administration:** consideration of permitting the ASRS to require an Employer to self-audit upon request.

Mr. Matson noted that staff and the EAC felt each issue deserved consideration, but the consensus, without a motion, was not to move forward this year. The EAC referred the issues to the Board.

Mr. Jim McLaughlin arrived.

No trustee expressed desire to discuss any of the issues. Mr. Byers directed the Operations Committee to examine the fee for service and penalty issues for possible future consideration.

4. Presentation, Discussion and Appropriate Action Regarding the ASRS Plan Valuation

Mr. Charlie Chittenden, Actuary, Buck Consultants, and Ms. Michelle DeLange, Director, Buck Consultants, addressed the Board regarding the Plan Valuation including retirement and health supplement benefits. Mr. Chittenden and Ms. DeLange summarized the Plan Valuation by noting items of interest including the recommended change in contribution rate from 9.0% to 9.6%. The change in contribution rate will go into effect July 1, 2010. No funds are available for an additional Permanent Benefit Increase (PBI) for retired members but all current PBIs will continue to be included in benefit checks.

Motion: Mr. Zeman stated Article XXIX of the state constitution requires public retirement systems to be funded using methods and assumptions that comply with generally accepted actuarial standards. In view of this requirement, Mr. Zeman moved that the board accept the 2009 actuarial valuation report of the Plan with the changes in the retirement, withdrawal, and disability rates that were presented, including the new contribution rate of 9.6%.

Dr. Keith Meredith seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

5. Presentation, Discussion and Appropriate Action Regarding the ASRS LTD Valuation

Mr. Chittenden and Ms. DeLange addressed the Board regarding the LTD Plan Valuation. Mr. Chittenden and Ms. DeLange summarized the LTD Plan Valuation by noting items of interest including the recommended change in contribution rate from 0.40% to 0.25% beginning July 1, 2010.

The total contribution rate for July 1, 2010 will be 9.85% (9.6% for retirement and health supplement benefits and 0.25% for LTD).

Motion: Dr. Meredith moved to accept the LTD Valuation as presented. Dr. Meredith affirmed the motion included the changes in the retirement, withdrawal, and disability rates as presented, when asked by Mr. Matson.

Mr. Zeman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

6. Presentation, Discussion and Appropriate Action Regarding the ASRS System Valuation and Actuary's Recommendation regarding 13th Checks for Retired System Members

Mr. Chittenden and Ms. DeLange addressed the Board regarding the System Valuation. Mr. Chittenden and Ms. DeLange provided information regarding non-retired census data, retiree census data, liabilities and funded status. The funded status for the System as of June 30, 2009 was reported as 77.36%. By rule, the ASRS must maintain current benefit levels when funded status is between 95% and 105%, therefore no additional 13th checks or additions to current 13th checks can be made. All current 13th checks will continue to be paid. No benefit reductions will be made at this time.

Motion: Dr. Meredith moved to accept the System Valuation as presented, with the addition of the word "estimated" in the recommendation to "Determine supplemental adjustments prior to 2010 valuation."

Mr. Connelly seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

7. Presentation, Discussion and Appropriate Action Regarding the Global Tactical Asset Allocation (GTAA) Program Review

Mr. Gary Dokes, Chief Investment Officer, Mr. Allan Martin, Managing Partner, New England Pension Consultants (NEPC), and Mr. Terry Dennison, Worldwide Partner, Mercer, addressed the Board regarding the Global Tactical Asset Allocation (GTAA) Program review. Mr. Dokes said that the objective of GTAA is to provide incremental return over ASRS Total Fund Benchmark returns. As of September 30, 2009, the total market value of the ASRS GTAA asset class was \$2.2 billion, or approximately 9.6% of the ASRS Total Fund. The GTAA asset class policy target/range is 10% \pm 2%.

8. Presentation, Discussion and Appropriate Action Regarding the Management and Oversight Process for a New Defined Contribution Plan(s)

Mr. Klein addressed the Board regarding a new defined contribution plan(s). In 2009, the Legislature permitted the Arizona State Retirement System (ASRS) to establish a supplemental salary deferral [403(b)/457] plan, as a supplement to the ASRS Defined Benefit (DB) Plan, for public employees, other than State employees as a means to save additional tax-deferred compensation for retirement. Senate Bill (SB) 1196 allows the ASRS to:

- employ services for the operation and administration of the plan;
- administer the plan through contracts with vendor(s);
- perform all acts necessary and proper for the operation and protection of the plan; and
- enter into intergovernmental agreements.

SB 1196 further clarifies that the plan is in addition to the DB Plan provided by the ASRS, allows any employees of a participating employer to join the plan, provides that employee participation allows the employer to make payroll deductions, clarifies that compensation deferred under the plan is compensation for purposes of ASRS retirement benefits, states that employee contributions and earnings are immediately vested and employer contributions, if any, are vested according to the plan, and provides an immunity clause for the State, the ASRS Board, and the ASRS.

Mr. Klein presented a proposed timeline for RFP activities, including a December 18, 2009 Board presentation and vendor(s) award with an implementation date of January 4, 2010. He said six vendors have submitted RFPs for consideration. Mr. Klein presented a proposed Management and Oversight Process for oversight of the new plan(s).

Motion: Mr. Zeman moved to approve the management and oversight process of the Supplemental Salary Deferral Plan.

Mr. Connelly seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

9. Presentation, Discussion and Appropriate Action Regarding the Calendar Year 2010 Board Meeting Calendar

Mr. Byers addressed the Board regarding the 2010 Board meeting calendar. The proposed dates in 2010 are February 19, March 19, April 16, May 21, July 16, August 20, September 17, October 15, November 19, and December 17. All Board meetings will begin at 8:30 a.m. except for the September 17 meeting, which will begin at 1:00 p.m.

Motion: Mr. Steve Zeman moved to approve the 2010 Board meeting schedule.

Dr. Meredith seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

10. Director's Report

Mr. Matson noted the "Continuously Appropriated Report" has been added to the Budget section of this report. The Director plans to include this document in future Board meeting packets and the report will also be added as a review item for the Operations Committee.

Mr. Matson said five of six in-house managed equity portfolios performed very well, and that Mr. Dave Underwood, Equity Portfolio Manager, in addition to the fixed income team, does a superb job of managing the portfolios.

Mr. Matson explained that the ASRS had a late dissemination of open enrollment packages, so the deadline has been extended from November 13 to November 30. The ASRS hopes to work with ADOA to homogenize the timing of open enrollment next year.

11. Call to the Public

Mr. Steve Ramos addressed the Board on behalf of Arizona Education Association – Retired, regarding their members' negative views on late distribution of Health Care packets for Open Enrollment.

12. Possible Presentation Regarding Board Committee Updates

Mr. Gutierrez, Chair, External Affairs Committee (EAC), said there will be no EAC meeting in December, since the Legislature is focusing on the State budget.

Mr. Tom Connelly, Chair, Investment Committee (IC), said the next IC meeting will take place December 14. The IC will look at the possible role of commodities in the portfolio.

Mr. Steve Zeman, Chair, Operations Committee (OC), said the next OC meeting will take place December 10, at which the new Supplemental Salary Deferral Plan and the auditor's report through June 30, 2009, will be discussed.

13. Board Requests for Agenda Items

Mr. Byers asked that the ASRS look into what our budget reductions could be in the next few years and what the actuarial impact would be.

14. The next ASRS Regular Board meeting is scheduled for Friday, December 18, 2009, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

15. Adjournment of the ASRS Board

Mr. Byers adjourned the Board meeting at 11:07 AM.

ARIZONA STATE RETIREMENT SYSTEM

Lisa Hanneman
Board Secretary

Paul Matson
Director

Date